Credit Union National Association CUNA

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The Honorable Mike Crapo
Chairman
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown,

On behalf of America's credit unions, thank you for holding the hearing "Legislative Proposals on Access to Capital." The Credit Union National Association (CUNA) represents America's credit unions their 110 million members. As you consider ideas to enhance consumers' access to capital, we urge you to consider two proposals pertinent to credit unions.

Delay NCUA's Risk-Based Capital Rule

Credit unions throughout the United States have expressed their significant concerns regarding the National Credit Union Administration's (NCUA) risk-based capital standards for credit unions. These concerns relate both to the appropriateness of the regulatory burden this regulation imposes on credit unions as well as whether NCUA has the legal authority to impose a risk-based standard for determining whether a credit union is well-capitalized when the Federal Credit Union Act permits the NCUA to impose a risk-based standard solely to determine capital adequacy.

NCUA's rule imposes new regulatory burden on credit unions that the agency has failed to justify, and the rule represents a solution in search of a problem. The current Prompt Corrective Action (PCA) system served very well during that crisis, with relatively few credit union failures. If a goal of a PCA scheme is for covered institutions to hold sufficient capital to withstand a severe financial crisis without imperiling the deposit insurance fund, credit unions' performance during the recent financial crisis stands as compelling evidence that a major overhaul of current credit union capital requirements toward a Basel-style system is simply not required. Credit unions failed at roughly one-third the rate of banks over the decade since the beginning of the financial crisis. In addition, credit union failures were generally confined to small institutions: total assets in failed credit unions are equal to only 2% of the assets in failed banks. Further, our analysis shows that risk-based standards applied to credit unions would have done very little to reduce costs to the National Credit Union Share Insurance Fund (NCUSIF) had it been in effect during the most recent financial crisis.

NCUA lacks the legal authority to set a risk-based capital standard to determine whether a credit union is well capitalized, and coming out of the financial crisis, Congress did not convey this authority. During consideration of the Dodd-Frank legislation, Congress explicitly excluded credit unions from risk-based capital requirements, in recognition of the credit union difference and the fact that America's credit unions—nearly half of which employ fewer than five full-time employees and hold less than $20 million in assets—were neither responsible for nor participatory in the risky financial activities that predicated the 2008 financial crisis.

NCUA finalized a rule that addresses a problem that does not exist using authority it does not have. We urge the Committee to address this situation by passing legislation to delay the implementation of NCUA's risk-based capital rule for two years to prevent credit union capital from being unnecessarily impaired to comply with this rule, and to give the agency time to revise these requirements consistent with law and the risk-profile of the credit union system.

Eliminate Maturity Limits on Federal Credit Union Loans

Credit unions could do more to provide access to capital if Congress eliminated statutory restrictions on the maturity of loans made by federal credit unions. While federal credit unions are permitted to make mortgage loans with maturities of more than 15 years, most other federal credit union loans must have maturities of 15 years or less. This puts federal credit unions at an unnecessary disadvantage relative to many state chartered credit unions and other depository institutions. It also makes credit less available for federal credit union members because it complicates both credit unions' ability loan to some education borrowers and to sell certain loans into the secondary market. Eliminating the statutory restriction on federal credit union loan maturity would help credit unions deliver more safe and affordable loan products to their members. We encourage Congress to eliminate these maturity limits for federal credit unions.

On behalf of America's credit unions and their 110 million members, thank you for your consideration of our views and for holding this important hearing.

Sincerely,

Jim Nussle
President & CEO